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Summit Countries: Attitudes Toward Economic Sanctions Against Libya

Overview

The other Summit countries continue to be extremely reluctant to impose economic sanctions against Libya for a variety of reasons including: a widespread feeling that sanctions don't work, an unwillingness to lose business, a fear of setting potentially-troublesome precedents, and an aversion to being seen as yielding to US pressure. In addition, most of them probably are afraid of Libyan retaliation--in the form of terrorism at home or reprisals against their citizens in Libya. On the other hand, these countries would almost certainly prefer to take some kind of economic action as an alternative to further US military strikes. In this connection, it is clear that each would find it easier to move if it could be portrayed as part of a coordinated international effort. Their willingness and ability to act would also be considerably enhanced if the ties of US oil companies to Libya were completely severed. [redacted] 25X1

This memorandum, requested by Lieutenant Colonel Oliver North, National Security Council, was prepared by the Office of European Analysis with a contribution from the Office of East Asian Analysis. Questions and comments are welcome and may be addressed to [redacted] Chief, West European Division, [redacted] 25X1 25X1

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WEST GERMANY

West German government officials have stated repeatedly that they believe economic sanctions do not work, West Germany will not take part in them, and economic exchanges with Libya are declining anyway. Statements by Chancellor Kohl and press commentary indicate that the continued presence of US oil companies in Libya tends to undermine what little inclination exists to take further measures. In addition, West Germany probably would take additional steps against Libya only in conjunction with other West European countries. [redacted] 25X1

[redacted] 25X6

1) <u>Cut off imports of Libyan oil</u>

Bonn expressed some interest in a sizeable cut in Libyan oil imports to Deputy Secretary Whitehead, but this would depend partly on US companies, which provide some 40 percent of the oil. In 1985, West Germany was Libya's second-largest customer, buying about 200,000 b/d, but imports in January-February 1986 were down 30 percent from the same period last year. [redacted] 25X1

2) <u>Ban sales of arms, spare parts, and sophisticated equipment</u>

Bonn has said that it will not export arms to Libya and that it will apply strict criteria to requests for licenses to export COCOM items to Libya. On dual-use high technology products, West German authorities have said they will check carefully to ensure that the primary use is not military. We doubt that Bonn can be persuaded to go further on this issue. [redacted] 25X1

3) <u>Eliminate export credits or guarantees</u>

Bonn will provide export credit guarantees only to German companies that declare they are not filling in, will limit future export credit guarantees to $7.5 million per contract, and will not provide export credit guarantees for US equipment included in

[redacted] 25X1

German exports. Coupled with other strict preconditions that Bonn has imposed, we believe these measures will effectively end the issuance of export credit guarantees for Libya, except for agreements that predate US sanctions. Bonn probably feels it has done all that is practical on this. [redacted] 25X1

4) Encourage companies and citizens not to fill in

Bonn claims that it has undertaken intensive, high-level talks with German industry to ensure that firms do not undercut US sanctions and insists that US allegations that some German firms are filling in are unfounded. We doubt that it can be persuaded to do more. [redacted] 25X1

5) Cut back on air services

Bonn has said nothing about air services, although the press has speculated that something might be done. The West Germans may view cutting back on air service as a low-cost, high-profile measure they could take to satisfy the US. [redacted] 25X1

6) Limit the activities of Libyan financial institutions

Libya has no important financial institutions in West Germany. [redacted] 25X1

7) Limit the operation of Libyan-flag ships

Bonn has said nothing on this but would be reluctant to deny any potential business to its ailing shipbuilding and maritime industry. [redacted] 25X1

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[redacted] 25X1

FRANCE

We believe that France might be persuaded to take limited additional measures against Libya. Paris has had its own recent spate of troubles with Libya, and the French public was the most supportive in Europe of last month's US military action. The French government, moreover, has been stung by criticism of its refusal to permit the use of French airspace during the mission; both President Mitterrand and Prime Minister Chirac--who are competing to gain the upper hand in their uneasy powersharing arrangement--have tried to appear as the tougher of the two. Paris may calculate in the wake of the US mission that that beefed up economic measures may head off the need for further military action. If the French perceive the terrorist threat is growing, we believe that they may take further steps. [redacted] 25X1

1) Cut off imports of Libyan oil

France no longer buys Libyan oil directly and considered imposing a ban on spot market purchases but decided this was impractical because the origin of spot market oil is hard to trace. Paris, however, does admit some ability to keep track of the provenance of spot market oil, and might agree to reduce or eliminate purchases of Libyan oil. French imports of Libyan oil were about 60,000 b/d last year. [redacted] 25X1

2) Ban sales of arms, spare parts, and sophisticated equipment

France cut off sales of offensive weapons several years ago, and recently banned shipments of spare parts. Some French technicians maintaining gunboats and electronics facilities, however, remain in Libya. [redacted] 25X1 25X1

Paris might agree to apply more pressure on French companies to curtail their maintenance operations. [redacted] 25X1

3) Eliminate export credits

Because of the commercial risk, France's limited trade with Libya is conducted strictly on a cash basis. The French export credit agency gives Libya its lowest credit rating. [redacted] 25X1

4) Encourage companies and citizens not to fill in

[redacted] the French government has told US diplomats that it would try to dissuade firms from filling in, [redacted] 25X1 25X1

[redacted] 25X1

[redacted] 25X1

[redacted] 25X1

[redacted] We think Paris might be willing to step up the pressure against filling in. [redacted] 25X1 25X1

5) Cut back on air services

Libya maintains scheduled air service to Paris while Air France continues to service Libyan Arab Airlines Boeing 727 aircraft at its facilities in Paris and Toulouse. Ending this contract would probably be the easiest step for the French to take, although Paris has been reluctant to do so up to now because of the commercial loss and because it would limit Paris' ability to monitor LAA's use of its fleet. [redacted] 25X1

6. Limit the activities of Libyan financial institutions

We believe the French will be reluctant to go along on with limiting or tracking the activities of Libyan financial institutions. Libya has interests in two banks located in Paris, the Banque Intercontinentale Arabe and the Union des Banques Arabes et Francaises. [redacted] 25X6 25X6

[redacted] 25X1

7) Limiting the operation of Libyan-flag ships

Similarly, we believe France would be hesitant to restrict Libyan ships' access to French ports, for fear of the loss of trade it would involve. France is also opposed to the principle of economic sanctions generally, and such an action would probably appear to the French to be intolerably close to an embargo of Libya. [redacted] 25X1

[redacted] 25X1

[redacted] 25X1

UNITED KINGDOM

Prime Minister Thatcher remains one of the strongest European opponents of economic sanctions against Libya. She has consistently contended that economic sanctions do not work and, moreover, does not want to set a precedent that would force her to invoke similar measures against South Africa. The British will probably be willing to take only minor additional steps in response to US requests. They will continue to point instead to the measures they took in 1984 in response to an earlier incident of Libyan terrorism and press other countries to come at least that far. [redacted] 25X1

1) <u>Cut off imports of Libyan oil</u>

The British are reluctant to cutback on the small quantity of oil they import from Libya because they believe anything short of a total world boycott of Libyan oil would have little impact. Another factor in their decision may be that UK refineries make use of special grades of Libyan crude which may not be readily available from other sources or which they receive at favorable prices from Libya. London would only agree to a total ban on oil imports if it received assurance from all other EC members that the ban would be unanimous. [redacted] 25X1

2) <u>Ban sales of arms, spare parts, and sophisticated equipment</u>

The UK imposed a ban on arms sales to Libya in 1984 following the shooting of a British policewoman outside the Libyan embassy. The British have worked hard within the EC to try to persuade other European countries to impose a ban on exports of military equipment to Tripoli. London may take steps in the future to better verify that dual-use technology products are not being used primarily for military activities. [redacted] 25X1

3) <u>Eliminate export credits or guarantees</u>

London likewise suspended export credit guarantees to Tripoli following the 1984 incident and will continue to press for full EC compliance with this policy. [redacted] 25X1

4) <u>Encourage companies and citizens not to fill in</u>

London has privately assured US officials that it is discouraging UK companies from filling in for departing US companies. [redacted] 25X1

25X1

[redacted] 25X1

25X1

25X1

5) Cut back on air services

London is reluctant to cut back on air services connecting the UK and Libya because of the large number of British nationals--roughly 5000--living in Libya who need reliable transportation for traveling back and forth. Nevertheless, the government did suspend British Caledonian's three flights per week to Libya following the US attack for security reasons. London apparently has not yet decided when to resume these flights and perhaps could be persuaded to extend the suspension for several months. 25X1

6) Limit the activities of Libyan financial institutions

Britain steadfastly opposes restricting financial transactions. The City of London is an extremely important source of income for the British economy and London does not want to jeopardize its reputation--particularly with Middle Eastern countries. British officials have stressed that Washington's freeze of Libyan assets "has an extraterritorial aspect" and that if the US tries to extend the freeze beyond foreign branches of US banks "the situation could become more difficult." 25X1

7) Limit the operation of Libyan-flag ships

Without proof that these ships are involved in terrorist activity or in transporting arms, the British are unlikely to take action to prevent free navigation in British waters. 25X1

25X1

[redacted] 25X1

ITALY

Italian Prime Minister Craxi probably believes that greater European support for economic sanctions against Libya might forestall further US military action, but domestic political disagreement over Middle East policy and the proximity of Libya to Italy make Craxi reluctant to take the lead in supporting stronger measures. Italian cooperation with new sanctions almost certainly would be contingent upon a European-wide commitment. At the Summit, Craxi might agree in principle to measures for which he believes he could later win domestic support--with the caveat that the Italian Cabinet would have to approve his actions. On some measures--an arms embargo and curtailing export credits--Craxi is likely to argue that Italy has done all it can. He also will be mindful of Foreign Minister Andreotti's recent statement--which received wide press coverage--that it was ridiculous for the United States to ask its European allies for economic sanctions while US companies were still active in Libya. [redacted] 25X1

1) <u>Cut off imports of Libyan oil</u>

Craxi probably believes that to be effective an EC or world-wide oil import boycott is necessary. Italy has been Libya's largest oil customer for the last three years--importing about 250,000 b/d in 1985--and apparently is continuing this role in 1986. Rome may be willing to cut its oil purchases somewhat but would consider the shipments received in payment of Libyan debts to Italian firms to be non-negotiable. [redacted] 25X1

2) <u>Ban sales of arms, spare parts, and sophisticated equipment</u>

The Rome airport attack last December spurred Italy to broaden its 1981 embargo on "lethal" arms sales to include all military equipment and spare parts, including completion of existing contracts. [redacted] 25X1 25X1

3) <u>Eliminate export credits or guarantees</u>

Because of the outstanding Libyan debt, Rome offers no export insurance or suppliers credit. [redacted] 25X1

4) <u>Encourage companies and citizens not to fill in</u>

In January, Rome ordered public sector firms not to fill in, and promised to apply moral suasion to the private sector. Italy

[redacted] 25X1

[redacted] 25X1

25X1

possibly could be persuaded to make a more concerted effort on this issue. [redacted] 25X1

[redacted] Craxi, [redacted] is probably genuinely interested in reducing Italy's economic ties with Libya and may be willing to impose restrictions on firms doing business there. He might also be willing to order Italian citizens out of Libya, particularly if other countries do so, or if there are further Libyan actions against Italy. [redacted] 25X1

25X1

5) Cut back on air services

Rome would be extremely reluctant to reduce airflights to Libya as long as a sizeable Italian community--2,800, down from 10,000 in January--remains in Libya. [redacted] 25X1

6) Limit the activities of Libyan financial institutions

Rome would be reluctant to limit the activities of Libyan financial institutions, partly out of fear that such action would lead to a loss of Italian assets in Libya. Italy is not concerned with Libyan ownership of the Tamoil Refinery or its 14 percent share of Fiat. [redacted] 25X1

7) Limit the operations of Libyan-flag ships

Italy would probably be willing to limit the operations of Libyan ships within the context of an EC boycott, but would be unlikely to undertake such a move by itself. [redacted] 25X1

[redacted] 25X1

[redacted] 25X1

CANADA

The Canadian government might be persuaded to take further steps against Libya and would almost certainly do so if its action could be characterized as being in concert with its NATO allies. Ottawa already has backing for tougher economic sanctions from its political opposition, the premier of Alberta--home of the Canadian oil industry--and the Canadian public. The effect on Libya would be small, however, because economic ties between the two countries are minimal--Libya takes less than 0.1 percent of Canada's exports and supplies only about 0.4 percent of Canada's oil consumption. The 1,000 or so Canadians in Libya do play an important role in the oil industry; Ottawa has repeatedly advised them of the dangers in remaining, but lacks the legal authority to order them home. [redacted] 25X1

1) <u>Cut off imports of Libyan oil</u>

Ottawa would join an international boycott of Libyan oil and might agree to ban Libyan oil imports on its own because the tiny amount involved--5,000 b/d in 1985--could easily be replaced from domestic sources. [redacted] 25X1

2) <u>Ban sales of arms, spare parts, and sophisticated equipment</u>

Ottawa has banned exports of oil and gas equipment containing advanced Western technology and has concluded no arms agreements in recent years; some Canadian firms may have stopped providing spare parts. Ottawa might also be willing to bar trade with Libya altogether, provided it was participating in a multilateral effort. Although the value of trade between the two countries is small, Ottawa almost certainly wants to avoid the appearance of yielding to US pressure. [redacted] 25X1

3) <u>Eliminate export credits or guarantees</u>

Ottawa has cancelled export insurance for Libyan-bound cargo. [redacted] 25X1

4) <u>Encourage companies and citizens not to fill in</u>

Ottawa has requested that firms and individuals not fill in, but [redacted] some Canadian workers have replaced US workers. Ottawa has no authority to prevent this. [redacted] 25X1 25X1

5) <u>Cut back on air services</u>

There is no air service at present. [redacted] 25X1

[redacted] 25X1

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25X1

6) Limit the activities of Libyan financial institutions

There apparently are no Libyan financial institutions in Canada. 25X1

7) Limit the operations of Libyan-flag ships

Since there are probably very few Libyan ships visiting Canadian ports, Ottawa would almost certainly agree to a multilateral ban. 25X1

25X1

[redacted] 25X1

JAPAN

The Japanese government believes economic sanctions usually do not seriously damage, or alter the behavior of, the target country and thus is likely to resist imposing them on Libya. Critically dependent on free international trade, Tokyo is reluctant to cooperate in restricting trade flows and setting precedents that might some day be used against Japan. In addition, economic sanctions could tarnish Japan's carefully cultivated reputation in the Arab world--the source of 70 percent of its crude oil imports--and damage the interests of Japanese companies involved in Libyan development projects. [redacted] 25X1

Nonetheless, Tokyo probably could be pressed to take limited economic countermeasures against Libya. The Japanese would acquiesce if the other Summit participants fell into line and especially if they believed stonewalling would harm relations with the United States. The possibiliity of a second US military strike would intensify the pressure for a positive Japanese decision on economic sanctions. [redacted] 25X1

1) <u>Cut off imports of Libyan oil</u>

Although Japan imports almost no Libyan oil, it probably would refuse to announce an official ban for fear of setting a precedent that might offend its other Arab oil suppliers. [redacted] 25X1

2) <u>Ban sales of arms, spare parts, and sophisticated equipment</u>

The sale of arms is prohibited but companies probably will continue to supply trucks and spare parts to the Libyan military as well sophisticated telecommunications equipment to the industrial sector. Tokyo might be persuaded to issue "administrative guidance" to Japanese companies to stop supplying non-lethal equipment (trucks, radios, spare parts) to the Libyan military. It would be more reluctant to block exports of sophisticated equipment used in Libyan industrial projects, but possibly would do so as part of a joint effort. [redacted] 25X1

3) <u>Eliminate export credits or guarantees</u>

Tokyo did this to the USSR after the invasion of Afghanistan and might agree to do so again--though probably only as part of a concerted action by the Big Seven. Tokyo would probably represent this as a pause in the government's usual trade facilitation efforts as opposed to a trade ban. Japanese banks for commercial reasons rate Libya as a poor credit risk and are

[redacted] 25X1

[redacted] 25X1

already taking a cautious stance toward Libyan transactions. [redacted] 25X1
[redacted] 25X1

4) <u>Encourage companies and citizens not to fill in</u>

The government has already done this but compliance by companies has been mixed. Tokyo might be persuaded to enforce more strictly Japanese companies' compliance and tighten its interpretation of what constitutes "long-planned" projects, which it currently permits. [redacted] 25X1

5) <u>Cut back on air services</u>

There is no air service at present. [redacted] 25X1

6) <u>Limit the activities of Libyan financial institutions</u>

Tokyo probably would join a coordinated effort to intensify monitoring and information exchanges. Nonetheless, Tokyo is not likely to agree to freeze Libyan assets or to sever financial ties with Tripoli. [redacted] 25X1

7) <u>Limit the operation of Libyan-flag ships</u>

Tokyo might well agree to do this informally because Libyan-flag ships rarely visit Japan. It is unlikely to be done officially, given Tokyo's fear of setting precedents. [redacted] 25X1

[redacted] 25X1

25X1

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